

## **PUBLIC DISCLOSURE**

**September 29, 2008**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Liberty Bank, Inc.  
Certificate Number 26816**

**326 South 500 East  
Salt Lake City, Utah 84102**

**Federal Deposit Insurance Corporation  
25 Jessie Street at Ecker Square, Suite 2300  
San Francisco, California 94105**

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the CRA performance of **Liberty Bank, Inc., Salt Lake City, Utah**, prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **September 29, 2008**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

## INSTITUTION RATING

***INSTITUTION'S CRA RATING:*** This institution is rated **Satisfactory**.

Liberty Bank, Inc.'s CRA performance depicts a satisfactory practice of providing for the credit needs of its assessment area (AA) in a manner consistent with its product lines, resources, and capabilities. The following supports this rating:

- Review of the bank's consumer 1 to 4 family real estate loans confirmed satisfactory penetration in lending to borrowers of different income levels.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA. No unexplained lending gaps were identified.
- A substantial majority of loans by number (88 percent) and dollar volume (81 percent) were extended within the bank's AA.
- The bank's average net loan-to-deposit (ANLTD) ratio (111 percent over 19 quarters) is more than reasonable.
- The institution has not received any consumer complaints relating to its CRA performance.
- No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

## **SCOPE OF THE EVALUATION**

This evaluation reflects the bank's CRA performance since the October 14, 2003, CRA Performance Evaluation. It was conducted from the institution's headquarters in Salt Lake City, Utah, relying on the records and reports provided by the bank and those publicly available. The loan and financial information, demographic data, and information gathered as part of the examination process, were also utilized, including community contacts. The bank's primary lending consists of construction, land development, and real estate loans. The review was predominately conducted within the bank's largest concentration of lending by category (1 to 4 family real estate loans). The bank relies predominately on brokered loans and customer referrals as walk-in-traffic is very limited.

Liberty Bank's CRA evaluation utilized the small bank examination procedures. To assess the institution's performance, the following five lending performance criteria were analyzed: the bank's quarterly ANLTD ratio; the level of lending within its AA; the distribution of lending to individuals of different income levels (borrower profile); the geographic distribution of loans; and the bank's response to any consumer complaints regarding its CRA performance. Of these criteria, the most weight was placed on the distribution of lending to individuals of different income levels. The geographic distribution analysis was given less weight in determining the bank's overall CRA rating. All 1 to 4 family real estate loans for 2007 and year-to-date (YTD) 2008 were used in the evaluation since the bank is not a Home Mortgage Disclosure Act (HMDA) reporter.

Examiners evaluated the bank's CRA performance in the context of the following:

- The current economic environment,
- Demographic characteristics of the bank's AA,
- Lending opportunities within the AA,
- Bank financial resources and constraints,
- Bank product offerings and business strategy, and
- Information derived from community contacts.

The bank's performance data for the loans reviewed was compared to 2000 U.S. Census data.

## DESCRIPTION OF INSTITUTION

Liberty Bank, Inc. is headquartered in Salt Lake City, Utah. It is a small commercial banking institution with only one office. The bank offers commercial loans, commercial real estate loans, equipment financing, lot loans, construction loans, residential mortgages, home equity lines of credit, auto, and personal consumer loans. In addition, the institution also offers demand deposit and a variety of savings products (money market deposit accounts (MMDA's), time deposits, and savings accounts). The hours of operation and availability of products and services are tailored to the convenience and needs of bank customers.

The Consolidated Report of Condition (Call Report) as of 6/30/08 reflects \$19,731,000 in total assets with total loans of \$15,078,000. Consumer real estate loans (1 to 4 family) represent approximately 55 percent or \$8,562,000 of the bank's lending portfolio. Table 1 below, reflects the composition of the institution's loan portfolio as of June 30, 2008.

<b>Table 1: Composition of Loan Portfolio as of March 31, 2008</b>		
<b>Loan Type</b>	<b>Dollar Amount (000s)</b>	<b>Percent of Total Loans (%)</b>
Construction and Land Development	4,387	28%
1-4 Family Residential	8,562	55%
Multi-Family (5 or more) Residential	302	2%
Commercial Real Estate	2,278	15%
<b>Total Real Estate Loans</b>	<b>15,529</b>	<b>100%</b>
Other Consumer	42	negligible
Leases Financing Receivables	0	0%
Less: Unearned Income	0	0%
<b>Total Loans</b>	<b>15,571</b>	<b>100%</b>

*Source: Call Report as of June 30, 2008 / Dollar amounts in thousands (000's)*

## DESCRIPTION OF ASSESSMENT AREA

The bank's defined AA is Salt Lake County. Table 2 shows selected demographic data for the various geographies.

**Table 2: Salt Lake City MSA Demographic Information – 2007**

Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	N/A * % of #
Geographies (Census Tracts) (CTs)*	193	2	22	47	29	0
Population by Geography *	898,387	1	23	49	27	0
Owner-Occupied Housing by Geography*	203,690	negligible	17	52	31	0
Family Distribution by Income Level*	215,864	17	20	25	38	0
Distribution of low- and- moderate income (LMI) Families throughout AA Geographies*	79,691	2	36	49	13	0
Housing and Urban Development (HUD) Updated Metropolitan Statistical Area (MSA) Median Family Income (MFI)*		60,100				
Households (HH) Below Poverty Level* 8% of total HH		22,754				

Source: \*2009 U.S. Census and 2007 HUD updated MFI

### Assessment Area's Economic Outlook

#### Salt Lake County:

According to the U.S. Census Bureau, 2007 remained steady for Salt Lake County's economy, despite the rising gas prices and public housing markets decreasing in other areas of the United States. The unemployment rate averaged approximately 2.5 percent. Employment gains in the county continue to be broad based, occurring among all major industrial sectors, according to the Utah State Department of Workforce Services. The construction industry experienced the strongest growth in 2007. Other industries that have seen growth during the year include trade, professional and business services, healthcare, and manufacturing.

In late 2007 and early 2008, the declining real estate market and weak economy affected Salt Lake County and as a result, real estate lending has declined significantly.

## Community Needs:

Existing contacts with various organizations within the Salt Lake MSA were reviewed for the past six months for the purpose of identifying credit needs. The following observations were expressed by these contacts:

- There is a great need for matching funds for Individual Development Accounts (IDAs). IDAs encourage savings by LMI families for education, job training, homeownership, and micro enterprise pursuits.
- Additional financial education training for low, moderate, and middle-income families is needed.
- Additional funding is needed for low-income housing. Only a small percentage of the current demand for lending to developers of affordable housing is being met. There is a long list of qualified families waiting to purchase affordable units.
- Pre-purchase counseling is needed for first-time home owners.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The evaluation of the bank's lending performance was focused primarily on consumer (1 to 4 family) real estate loans that were made during the review period. The bank is not subject to reporting under the HMDA regulation. This category of lending was selected for review because it represents the bank's primary lending focus and comprised a large portion (55 percent) of all loans originated by the bank during the review period.

### Lending in the Assessment Area

A substantial majority of loans and other lending related activities are in the bank's AA. All consumer 1 to 4 family residential loans originated in 2007 and YTD 2008 (16 loans) were reviewed. Of these 16 loans, 14 were located inside the AA, or approximately 88 percent. The dollar volume showed similar characteristics at 81 percent.

Table 3 shows the percentage of these loans, by number and volume, that the bank extends within its AA. The bank's strategic business plan generally focuses on a commitment to consumer real estate lending within its AA. The bank's effort to conduct business within those areas, combined with its lending capabilities, is evidenced by the number/dollar of loans originated within the AA.

**Table 3: Distribution of 1 to 4 Family Loans Within the Assessment Area**

YEAR	Loan Type:	Number of Loans					Dollar Volume of Loans (000s)				
		Inside		Outside		Total #	Inside		Outside		Total \$(000)
		#	%	#	%		\$(000)	%	\$(000)	%	
2007	1 to 4 Family Residential	7	88	1	12	8	1,389	87	206	13	1,595
2008 YTD	1 to 4 Family Residential	7	88	1	12	8	960	73	350	27	1,310
<b>Aggregate Totals</b>		<b>14</b>	<b>88</b>	<b>2</b>	<b>12</b>	<b>16</b>	<b>2,349</b>	<b>81</b>	<b>556</b>	<b>19</b>	<b>2,905</b>

Sources: Bank's data for 1 to 4 family residential loans originated between 1/ 2007 and YTD 2008.



## Borrowers of Different Income Levels:

### 1 to 4 Family Residential Loans

The bank has developed a niche market with many of the smaller home builders, resulting in a moderate level of lending for 1 to 4 family residential properties.

The bank's distribution of 1 to 4 family residential loans to LMI individuals reflects a reasonable penetration of lending among individuals of different income levels when comparing the bank's lending performance to census data for the bank's AA. The following table indicates the distribution of these loans within the AA by number of loans among borrowers of different income levels for the review period.

**Table 4: Distribution of 1 to 4 Family Residential Loans by Borrower Income Level  
By Number of Loans For Activity Years 2007, YTD 2008**

Borrower Income Level	Total Percentage of Families by Income Level	Liberty Bank Performance					
		Bank Performance Totals for 2007- 2008 Combined		1 to 4 Family Residential Distribution by #/% of Loan Originations 2007		1 to 4 Family Residential Distribution by #/% of Loan Originations YTD 2008	
		#	%	#	%	#	%
<b>Low</b>	17	1	7	0	0	1	14
<b>Moderate</b>	20	2	14	1	14	1	14
<b>Middle</b>	25	6	43	2	29	4	58
<b>Upper</b>	38	5	36	4	57	1	14
<b>Total</b>	100	14	100	7	100	7	100

Sources: 2000 U.S. Census Data; Loan Sample and Bank Records

Overall, the performance to LMI borrowers is satisfactory, although moderately lower than the comparative data. There were three loans originated to LMI borrowers during the review period. The lower level of lending during this time is attributed to the economic factors affecting the mortgage industry.

Approximately 37 percent of families in the AA are LMI families; In addition, over 90 percent of all low-income families reside in LMI CTs and nearly 55 percent of all moderate-income families reside in LMI CTs. Also, only 16 percent of the housing units in low-income tracts and 41 percent of the housing units in moderate-income tracts are owner-occupied.

## Lending by Geography:

### 1 to 4 Family Residential Lending within the AA:

The bank's geographic distribution of 1 to 4 family residential lending within the AA reflects reasonable penetration. Table 5 illustrates the bank's geographic distribution of these loans by number. This performance is reasonable given the nominal levels of families in low-income tracts, the current economic conditions, and the lower levels of owner-occupied housing in these tracts. The bank's

performance in moderate-income tracts is adequate, despite being slightly lower than the comparative data, primarily due to the current economic factors affecting the mortgage industry.

Currently, the AA consists of 5 low-income CTs, and 43 moderate-income CTs, or 2 and 22 percent of total CTs, respectively (see Table 2).

<b>Table 5: Distribution of 1 to 4 Family Residential Loans by Geography By Number of Loans for the Activity Years 2007 and YTD 2008</b>							
CT Income Level	Total Percentage of Families By Tract	Liberty Bank Performance					
		Total Bank Performance 2007-2008 Combined By CT		Distribution by #/% of loans 2007		Distribution by #/% of loans YTD 2008	
		#	%	#	%	#	%
<b>Low</b>	<1	0	0	0	0	0	0
<b>Moderate</b>	22	2	14	1	14	1	14
<b>Middle</b>	50	10	72	6	86	4	57
<b>Upper</b>	28	2	14			2	29
<b>Total</b>	<b>100</b>	<b>14</b>	<b>100</b>	<b>7</b>	<b>100</b>	<b>7</b>	<b>100</b>

Sources: 2000 U.S. Census Data; Loan Sample and Bank Records.

### **ANLTD Ratio**

This performance factor measures the extent to which the bank utilizes its deposit resources to extend credit. Liberty Bank, Inc.'s ANLTD ratio is more than reasonable given the institution's size, financial condition, competition, tenure, and AA credit needs. The ANLTD ratio was 111 percent, based on an average of 19 quarters since the previous evaluation, dated October 14, 2003. Table 6 illustrates the institution's ANLTD ratio since the previous CRA Evaluation.

The institution's ratio has gradually decreased since the previous CRA Evaluation from 154 percent as of December 31, 2003, to 97 percent as of June 30, 2008. This is primarily due to loan growth not keeping pace with deposit growth and is representative of the bank's size, decreased lending personnel levels, and real estate economic factors affecting the economy, primarily during 2007 and 2008.

<b>Table 6: ANLTD Ratio</b>					
Call Report Date	Ratio (%)	Call Report Date	Ratio (%)	Call Report Date	Ratio (%)
12/31/2003	154	09/30/2005	105	06/30/2007	112
03/31/2004	144	12/31/2005	105	09/30/2007	105
06/30/2004	112	03/31/2006	108	12/31/2007	99
9/30/2004	125	06/30/2006	101	03/31/2008	93
12/31/2004	110	9/30/2006	102	06/30/2008	97
03/31/2005	119	12/31/2006	105		
06/30/2005	106	03/31/2007	107		
<b>ANLTD Ratio over Twenty Quarters</b>					<b>111%</b>

Source: Call Report

**Response to Complaints:**

The bank has not received any CRA-related complaints since its inception.

**Fair Lending or Other Illegal Credit Practices Review:**

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.